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PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
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SUBJECT: CORDOBA GOVERNOR DE LA SOTA: ARGENTINA'S FREE MARKET
STALWART

Summary

¶1. (SBU) Cordoba Governor Jose Manuel de la Sota, in a dinner with the Charge, portrayed himself as a champion of free market orthodoxy standing up to a Kirchner administration riding roughshod over market disciplines and contractual sanctity. He questioned the values of a politically and socially immature Argentina that undervalues the rule of law and fails to re-invest appropriately in primary economic infrastructure. De la Sota highlighted his provincial administration's successful use of targeted incentives in attracting new high-tech investment -- including Motorola and Intel software development centers and call center jobs -- to renew and expand Cordoba's productive capacity. He complained that the GoA's increasing reliance on export tariffs and financial transaction taxes not shared with the provinces under Argentina's "co-participation" scheme has dramatically strengthened President Kirchner's hand in allocating government revenues, allowed him to consolidate political power. De la Sota will complete two terms as Governor in 2007 and he hinted at possible ambitions to run for President in the 2011 elections.
End Summary

¶2. (U) On October 12, Cordoba Governor Jose Manuel de la Sota hosted Charge, EconCouns, Defense Attache and Poloff to dinner, with his guests Cordoba Production and Labor Minister Adriana Nazario, Federal Senator and Cordoba industrialist Roberto Urquia, President of the Cordoba Export Chamber of Commerce Ercole Felippa, Vice President of the Cordoba Stock Exchange Manuel Tagles, and Vice President of the Cordoba Industrial Union Rodolfo Banchio.

Argentina Adrift

¶3. (SBU) Governor De La Sota welcomed the Embassy visit, noted longstanding ties of U.S. multinationals in his province, and -- after seven years in office that spanned the 2001/2 economic crash -- reflected on Argentina's current crisis of identity. He called Argentina's current social and economic structures worryingly weak due to: (1) the lack of a cohesive sense of society, manifest in

citizens' lack of regard for the common good and for public property -- "Argentina will be 200 years old in 2010: We are hardly a young county but remain very politically and socially immature;" (2) the lack of a culture of respect for the rule of law, manifest in a sense that the law is for others and those who obey the law are either naive or foolish; (3) the lack of reinvestment in primary economic infrastructure, with periods of growth taken as a windfall by provincial and federal governments alike to be enjoyed and exploited in the moment; and (4) the tendency of Argentines to favor strong caudillo-like central authority with a consequent hollowing-out of government institutional capacity.

Cordoba: A Haven for Multinational Investment

¶4. (SBU) Early in his governorship, de la Sota said, he appreciated the importance of attracting targeted investment to Cordoba province to renew and expand its productive capacity. He called the high-tech sector cluster one of Cordoba's "jewels," and detailed a variety of targeted investment incentives -- including tax holidays, new employment bonuses and close coordination with the science faculties of Cordoba University -- used to beat stiff international competition to win Motorola (2001) and Intel (2005) software development centers. Building on this success, Cordoba is now employing similar incentives to attract a wave of call-center investments, taking advantage of the provinces well-educated, multilingual and relatively low-cost university graduates. (Note: There are currently over 30,000 call center jobs in Argentina, split between the city and Province of Buenos Aires and the cities of Cordoba and Rosario. The industry is growing at a rapid 20 percent per annum. End Note.)

Trade Concerns

¶5. (SBU) On trade issues, Senator Urquia asked about the status of our GSP program renewal, noting that Cordoba province produces the bulk of Argentina's peanut crop, whose exports would be significantly impacted by any loss of privileges. (Note: Argentina exported nearly USD 237 million in peanuts and peanut products worldwide in 2005, including USD 24 million in exports to the U.S., just over USD 2 million of which was exported under GSP. End Note).

Urquia owns a major oil-seed processing and export factory in southern Cordoba which he said is Argentina's fifth largest overall and second largest nationally owned exporter. Export Chamber of Commerce President Ercole Felippa, who also runs Manfrey, a major Cordoba dairy company. He complained bitterly of the Chilean National Commission for Price Distortion's October 6 decision to impose a temporary 23 percent tariff on some milk and cheese product imports from Argentina. Felippa attributed this to soaring Chilean export of dairy products thanks to a variety of free trade agreements, with Argentine imports supplementing supplies for residual domestic consumption. (Note: This does not appear to be the case. While the value of Chilean dairy imports from Argentina grew to \$28.6 million for the 5-month period January to May 2006, up 230% year-on-year, Chile's dairy exports fell by some 25% during this period. Chile charges that Argentine dairy exports increased as a result of artificially low prices, supported by controlled energy costs, direct GoA subsidies to the sector, and the reduction of GoA dairy sector export tariffs.)

¶6. (SBU) De la Sota noted that, as elsewhere in Argentina following the 2002 peso devaluation, agricultural production has exploded, with soy and corn yields doubling over the past four years. (Note: This claim appears exaggerated: According to the U.S. Foreign Agricultural Service, while total Argentine soy production has increased 262 percent from 1996 to 2005, soy yield have increased 48 percent in the same period. Corn production has increased 53 percent from 1983 to 2005 and corn yields have risen 92 percent in that same period. End Note). He was particularly excited about the prospect of developing an ethanol industry in the province, with corn-distilled fuel production adding local value and contributing to the GoA's legislative mandate to have domestically-sold conventional diesel and gasoline contain a mix of 5% biodiesel (oil

seed-derived) and/or ethanol (corn- or sugar-derived) by 2010.

Provincial/Federal Frictions

17. (SBU) Turning to longstanding provincial frictions with the federal government, de la Sota complained that the GoA's reliance on export tariffs and the financial transaction tax - taxes not covered by Argentina's "co-participation" law, which defines the split of federally collected revenues with the provinces - has dramatically strengthened the hand of the federal government. He explained that the co-participation formula agreed upon in the 1960s mandated an "equitable" 40-60 percent split of revenues between provinces and the federal government. Factoring in the new unshared taxes, the province's cut of federal revenue collections has been pared to an "unsustainable" 30-70 percent split. (Note: Export tariffs contributed 11.5 percent of GoA revenues in 2005, net of social security contributions. End Note). President Kirchner has used federal control over revenues to consolidate power and put provincial governors under his thumb, de la Sota concluded, calling it imperative that the co-participation formula be revised for the sake of "political sanity."

18. (SBU) De la Sota called the federal export tariff and financial transactions taxes broadly regressive and noted that Cordoba's citizens are currently paying Pesos 1.4 billion into federal coffers but getting back only Pesos 300-400 million in co-participation revenue sharing. Adding insult to injury, he added, the provinces are paying for the federal government to subsidize "excessive" transport and social service subsidies for the Federal District City of Buenos Aires. The poor in Cordoba, he said, must pay significantly more for public transportation than do City of Buenos Aires residents, whom President Kirchner feels it is

necessary to appease.

19. (SBU) De la Sota commented on outstanding ICSID arbitration cases against the GoA by multinationals whose public service contracts were abrogated by the GoA's 2002 pesification decree. While the federal government has taken control and re-nationalized both City and Province of Buenos Aires waterworks concessions (from France's Suez and the U.S.'s Enron, respectively), Cordoba has maintained its majority Suez-run Aguas de Cordoba concession. The provincial government, de la Sota explained, is not in the habit of unilaterally renegotiating service contracts with either foreign or domestic companies and in any case, the Cordoba waterworks contract remains cost effective and well run. "How can we attract new investment if we keep changing the rules of the game?" he concluded.

Break from Kirchnerism

110. (SBU) Governor de la Sota stressed his independence as a politician, said he has enjoyed his time as governor, but that after eight years in office, it is time for a change. He explained that the electorates of more "sophisticated" provinces like Cordoba want change of leadership, even if they do not immediately recognize the need themselves. De la Sota raised the controversial initiative by the current Misiones province governor to change the constitution to allow for his own indefinite reelection. De la Sota said that this was especially dangerous in a small province like Misiones, because the electorate is indebted to the local government for publicly administered social programs and for locally determined civil service employment. With 40 to 60 percent of its population in public service positions, the electorate of Misiones is unlikely to vote for change, he said. Cordoba, however, has only about five percent of its population in public positions, and therefore enjoys a truly independent electorate.

Comment

111. (SBU) De la Sota's agenda was clearly to present himself as a

free market stalwart, one whose track record of a successful commitment to market disciplines and contractual sanctity stand him apart from the policies of the Kirchner administration. His closing comments on elections made it evident that he sees the Kirchner administration with a lock on the October 2007 presidential elections. De la Sota's presentation of Cordoba's progress and success under his administration hinted at his possible ambitions to run for President in 2011 elections. De la Sota is charismatic, astute, and enjoys high public approval ratings. He was considered as a possible Peronist Presidential candidate for the 2003 elections, but did not make the cut. He has a demonstrated a record of strong economic growth and stability in Cordoba, but has yet to transform into a national figure. If President Kirchner's heterodox economic policy mix cannot sustain the current economic health of the country into and through a second mandate, Governor de la Sota may well have a compelling message to offer voters in the 2011 elections.

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